

Message Text

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AMEMBASSY LONDON
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AMEMBASSY OSLO
AMEMBASSY PARIS
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SUBJECT: "DECEMBER COMPROMISE" PROTECTS GOVERNMENT'S INCOMES POLICY

REF: (A) COPENHAGEN 4512, (B) COPENHAGEN 2771
(C) COPENHAGEN 3277

SUMMARY: THE PRICE, RENT, AND INCOMES CONTROL LEGISLATION
ADOPTED ON DECEMBER 4 (SEE REFTEL A) AUGMENTS THE ANTI-
INFLATIONARY LAWS ADOPTED LAST AUGUST, PARTICULARLY THE PEGGING
OF MARCH 1977/FEBRUARY 1979 WAGE DEVELOPMENTS TO A SIX PERCENT PER
ANNUM LIMIT. IT IS DESIGNED MAINLY TO PREVENT EXHORBITANT
WAGE MOVES PRIOR TO THE NEW LABOR CONTRACTS ON
MARCH 1, 1977, WHICH WOULD RENDER THE PLANNED INCOMES
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POLICY MEASURES MEANINGLESS EVEN BEFORE THEIR START.

END SUMMARY

1. THE FOLLOWING ADOPTED ON DECEMBER 4 A NEW LAW ABOUT PRICE, RENT, AND INCOMES RESTRICTIONS WHICH REPLACES PRIOR PROFIT RESTRICTION LAWS IN EFFECT SINCE 1975. THE MAJOR DIFFERENCE BETWEEN THE OLD AND THE NEW LEGISLATION IS THAT WHILE BOTH PERMIT THE PASSING ON OF INCREASED COSTS OF IMPORTED RAW MATERIALS AND SEMI-MANUFACTURERS, THE OLD LAW, UNLIKE THE NEW, ALSO PERMITTED THE PASSING ON OF INCREASED LABOR COSTS.

2. THE PRIMARY PURPOSE OF THE NEW LAW IS TO PROTECT THE INCOMES POLICY OF THE AUGUST COMPROMISE (SEE REF B) WHICH STATED THE GOVERNMENT'S INTENTION TO LIMIT WAGE INCREASES IN 1977 AND 1978 TO SIX PERCENT PER ANNUM, INCLUDING TRADITIONAL AND AUTOMATIC WAGE ESCALATION GENERATED BY RISES IN THE COST-OF-LIVING INDEX.

3. PROTECTION OF THE INCOMES POLICY BECAME NECESSARY BECAUSE OF LABOR EFFORTS TO CIRCUMVENT AND UNDERMINE THE INCOMES POLICY BEFORE IT TAKES EFFECT NEXT MARCH 1. UNIONS HING CONTRACTS THAT ESTABLISH ONLY MINIMUM PAY RATES, LEAVING THE ACTUAL WAGE/FIXING TO INDIVIDUAL OR GROUP BARGAINING AT THE PLANT LEVEL THROUGHOUT THE CONTRACT PERIOD, SOUGHT TO UNDERMINE THE AUGUST COMPROMISE BY BARGAINING UP WAGES BEFORE THE LIMITATION TAKES EFFECT NEXT MARCH. UNIONS HAVING THE KIND OF CONTRACT THAT ESTABLISHES A FIXED WAGE THROUGHOUT THE CONTRACT PERIOD TRIED, SOMETIMES SUCCESSFULLY, TO UNDERMINE THE AUGUST COMPROMISE THROUGH ILLEGAL STRIKES FOR HIGHER PAY.

4. THE NEW LAW DOES NOT FREEZE WAGES, BUT ATTEMPTS TO ACHIEVE THE SAME RESULT BY MAKING IT IMPOSSIBLE FOR EMPLOYERS TO PASS ON INCREASED WAGE COSTS IN THE FORM OF HIGHER PRICES. THE MPE IS THAT EMPLOYERS WILL THUS BE STRENGTHENED IN THEIR RESOLVE TO SAY NO TO WAGE DEMANDS. THE NEW LAW DOES AID THE EMPLOYER IN THIS RESPECT BY SPECIFICALLY PROHIBITING UNCLASSIFIED

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ANY WAGE INCREASES ACHIEVED THROUGH WILDCAT STRIKES OR OTHER NON-CONTRACTUAL MEASURES.

5. WHILE THE NEW LAW COULD SAVE THE AUGUST COMPROMISE IF LABOR AS A RESULT NOW "COOLS IT," AND THEREBY CURB AND NEW SOURCE OF INFLATIONARY PRESSURE, THE LAW SEEMS TO COME TOO LATE TO PREVENT WAGE RAISES THAT WILL BE RELEASED IN EARLY 1977 THROUGH THE COST-OF-

LIVING INDEX MECHANISM. THIS COL RAISE COUPLED WITH THE EXPIRATION OF A GOVERNMENT WAGE SUBSIDY, WILL RESULT IN A WAGE COST INCREASE OF ABOUT 5 PERCENT EVEN BEFORE THE NEW CONTRACTS COME INTO EFFECT.

6. IN ESSENCE THE NEW LEGISLATION HAS ONLY LIMITED DIRECT ECONOMIC CONSEQUENCES. IF IT SUCCEEDS IN SAING THE AUGUST COMRPOMISE, HOWEVER, ITS INDRECT ECONOMIC CONSEQUENCES WILL BE FAR REACHING. KEEPING INFLATION IN CHECK IN DENMARK REMAINS A KEY ECONOMIC OBJECTIVE (SEE REF C).

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